

Fraud and Dangerous

Mail Fraud

The Mail Fraud Statute is the oldest and the most effective consumer protection law, and the U.S. Postal Inspection Service is the federal law enforcement agency mandated by Congress to enforce it.

To increase their efficiency in investigating suspected mail fraud, Postal Inspectors lead and participate in several joint law enforcement and consumer group initiatives aimed at safeguarding the public's confidence in the U.S. Mail. Educating the public on fraud schemes that involve the mail is an essential component to meeting this goal.

Postal Inspectors work cooperatively on joint task force investigations with other law enforcement agencies to take advantage of the expertise of each agency and to leverage resources. Of the approximately 1,970 Postal Inspectors across the nation, roughly 300 are assigned to mail fraud investigations.

Inspectors investigated 3,150

Case Files:

Corporate Fraud

The chief executive officer and owner of American Tissue, Inc., a major paper products manufacturing company in New York, surrendered to Postal Inspectors and FBI agents in March 2003 on charges of securities, bank, and wire fraud. Inspectors alleged the former executive had created \$20 million worth of fictitious sales invoices, enabling his company to borrow millions of dollars from bank lenders.

Three other company officials were also charged, as well as an Arthur Anderson senior auditor, who allegedly shredded certain documents after discovering the company had “cooked the books.” The company filed for bankruptcy, and thousands of workers lost their jobs. Losses are estimated at \$310 million.

Four top executives of Charter Communications, a large firm in St. Louis, Missouri, were indicted in July 2003 on 14 counts of mail fraud, wire fraud, and conspiracy

related to inflating revenue, cash flow, and subscriber numbers for the company. Postal Inspectors and FBI agents alleged that, when the chief operating officer and chief financial officer realized the company could fall short of its projected year-end totals, they devised a scheme to artificially inflate the numbers.

As a result, more than \$17 million in bogus revenue and cash flow were reported for the company in the year 2000. A former senior vice president of the company pled guilty to a single count of conspiracy in July 2003. In October 2003, the U.S. Attorney's Office reported that, due to allegations of witness tampering, separate cases will be opened to resolve the charges.

► **Postal Inspectors, FBI agents, and agents from the Securities and Exchange Commission**—all members of the President's Corporate Fraud Task Force—arrested three executives of Dynegy Energy in June 2003 in Houston, Texas, on charges of securities fraud, mail fraud, and wire fraud.

The two men and a woman





allegedly reported their company “loans” as cash flow, rather than debt, in financial tax statements and engineered a complex series of natural gas sales that generated bogus profits of nearly \$300 million. The former executives, who are all certified public accountants, were indicted on June 12, 2003.

Case Files:

Mail Fraud Against Businesses

► **A three-year investigation by San Francisco Postal Inspectors of a \$3 million Internet fraud scheme resulted in the arrest of four suspects in December 2002 in Vilnius, Lithuania, by cooperating members of that country’s Criminal Police Bureau.**

The suspects used stolen credit card numbers to buy computers and other items on the Internet, and had the items delivered by U.S. Mail or private courier to commercial mail receiving agencies (CMRAs) in California, where they rented addresses under false names.

After the arrests, one of the suspects, who had been released from prison, advised the CMRAs to forward the mail to a CMRA in Willowbrook, Illinois. Inspectors traveled to Willowbrook and arrested a Lithuanian man there, who later pled guilty to picking up the packages in return for payment from his co-conspirators.

Postal Inspectors have been working with the corporate offices of the CMRAs to implement an aggressive prevention campaign to identify

the schemes and return items to merchants. Despite their efforts, the fraud scheme has resurfaced, and Inspectors are contacting targeted CMRAs to halt mail-forwarding orders from fraudulent mailers.

► **A grand jury in Kentucky convicted the nation’s largest viatical settlement company, its president and vice president, as well as a viatical brokerage company and its chief financial officer, on charges of mail fraud, wire fraud, and conspiracy.**

Postal Inspectors, assisted by agents from the FBI and Kentucky Department of Insurance, found the defendants had helped terminally ill patients obtain large life insurance policies by falsifying their medical conditions and arranging for healthy imposters to take required medical exams. The policies were then sold back to the settlement company, which collected more than \$37 million in fraudulent assets.

The defendants received sentences ranging from one year of probation to up to 14 years in prison, and were ordered to pay a combined \$661,292 in restitution to victims.

► **Postal Inspectors and Secret Service agents assisted Royal Thailand Police in the May 20, 2003, arrest of a Ukrainian man for criminal copyright infringement, trafficking in counterfeit goods, money laundering, conspiracy, and possessing unauthorized access devices.**

The man distributed thousands of copies of counterfeit software, valued at more than \$3 million, over the Internet. He is allegedly part of a large Eastern European ring of com-

fraud cases this past fiscal year, and Inspection Service analysts prepared nearly 80,000 letters in response to mail fraud complaints. During FY 2003, Postal Inspectors arrested 1,453 mail fraud offenders, and 1,387 were convicted as a result of Inspection Service investigations conducted during FY 2003 and in prior fiscal years.

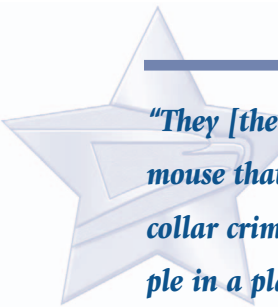
Corporate Fraud

Postal Inspectors throughout the country are investigating numerous cases of large-scale corporate fraud, which nearly always involves the U.S. Mail.

Inspectors have aggressively pursued executives who falsely represent the health of their companies by manipulating financial statements, or who lie to investors while embezzling their funds—resulting in the victimization of thousands of stockholders.

Following the arrest by Postal Inspectors of John Rigas, CEO of Adelphia Communications Corporation, in July 2002, the White House named the Postal Inspection Service a member of its Corporate Fraud Task Force. Among the corporate fraud

cases investigated by Inspectors in FY 2003 was one involving U.S. Technologies CEO C. Gregory Earls, who was subsequently indicted on charges of mail, wire, and securities fraud, and accused of diverting \$15 million from investors for his own purposes.



"They [the Postal Inspection Service] are the mouse that roared when it comes to white-collar crime. They only have a few dozen people in a place like New York and they have the impact of hundreds," said Jim Comey, the U.S. Attorney for Manhattan, whose office is prosecuting Earls and the Rigases.

Mail Fraud Against Businesses

Postal Inspectors work with members of the business community to help protect them from being victimized by mail fraud. Inspectors have established working groups with private industry to share best practices on fraud prevention, exchange information, and provide updated information on recent fraud schemes.

Mail Fraud Against Consumers

The Postal Inspection Service emphasizes the importance of consumer awareness

puter hackers responsible for fraudulent transactions on nearly 20 million credit cards.

Case Files:

Mail Fraud Against Consumers

► **A Texas man was sentenced in October 2002 to 10 years in prison and three years' probation, and was ordered to pay restitution of about \$1.7 million.** Postal Inspectors proved he sold nearly \$4.1 million worth of bogus, "FDIC-insured" certificates of deposit to 35 investors in a Ponzi-type scheme. He pled guilty to mail fraud in November 2001.

► **Postal Inspectors determined that a Weston, Florida, man tricked 50,000 people across the country into mailing him \$30 to \$45 as a "registration fee" in return for stuffing envelopes at home for \$2 per envelope.** He collected about \$2 million before Inspectors shut him down. He pled guilty to mail fraud on May 12, 2003, and sentencing is pending.

► **Three Virginia men and a former member of the Harlem Globetrotters were arrested in June 2003 for defrauding more than 200 investors.** Postal Inspectors and agents from the IRS and FBI alleged that, from 1996 through 2000, the men promoted high-yield investment programs that allegedly returned rates above current market values, some as high as 10 percent monthly.

They earned investors' trust by using religious beliefs and themes to promote the bogus programs. The defendants collected more than \$10 million under 17 business entities and reassured investors by issuing

them "promissory notes," which were fake.

Victims were told their money was invested in overseas trading programs, international debentures and bonds, the World Bank, and the International Monetary Fund, among other places, but most of their money was deposited in the defendant's offshore bank accounts to pay for personal expenses and to pay interest to early investors in a Ponzi-like scheme.

► **The president of Wellesley Service Inc. in Fort Dix, New Jersey, which merged waste-management and heating-oil firms for sale to larger conglomerates, pled guilty on June 6, 2003, to mail fraud and conspiracy to commit mail and tax fraud.** Postal Inspectors alleged the president and his conspirators enlisted investors via private placement ads and promissory notes, guaranteeing them a 15 percent annual return, plus a 50 percent "kicker" upon repayment.

The president mailed letters to investors misrepresenting the company's financial well-being and impending deals, and requesting their notes be rolled over for increased amounts, which most agreed to. Between 1995 and 2001, more than 200 people invested \$80 million in the company, including a noted mystery writer who invested nearly \$20 million.

Rather than using the money to fund operations, the president and others looted the company. The president collected nearly \$30 million as part of a sham consulting agreement and had his personal expenses paid by the company, including a \$2.5 million home, his clothes, and cars. Sentencing is pending.

New York Postal Inspectors Uncover \$100 Million International Investment Fraud

In a case precipitated by the September 11, 2001, terrorist attacks on the World Trade Center in New York, U.S. Postal Inspectors from the Brooklyn Fraud Team exposed an elaborate investment scam by Evergreen International Spot Trading, Inc. Evergreen represented itself as a foreign currency trading company with three New York offices, and an affiliated clearing firm, First Equity Enterprises, Inc., located on the 15th floor of Two World Trade Center.

Using aggressive telemarketing tactics, Evergreen's staff attracted more than 2,000 investors in the United States, Australia, New Zealand, and Europe who were interested in foreign currency trading. Beginning in 1997 and through 2001, investors poured more than \$189 million into the company. Evergreen now owes them more than \$100 million.

Postal Inspectors first learned of problems with Evergreen in September 2001, in the days following the terrorist attacks on the World Trade Center and elsewhere. Worried investors tried to contact their brokers at Evergreen to determine the fate of First Equity and whether its employees and their accounts were safe. They quickly learned their money was gone—and not as a result of terrorism.

Evidence collected by U.S. Postal Inspectors revealed that, while Evergreen's brokers mailed customers sales brochures and account statements showing high profits, at least 10 of its employees—including the president, director of operations, chief trader,

and chief financial officer—conspired to direct customers' money through First Equity Enterprises, Inc., to a sham entity in Budapest, Hungary, known as Forex International, Ltd.

Evergreen told investors that First Equity was an independent clearing firm that would maintain and accurately account for their money. In fact, Inspectors determined that both Evergreen and First Equity, as well as Forex International, were owned and controlled by Andrei Koudachev, and Evergreen was its only client.

Evergreen's employees, including chief trader Mamed Mekhtiev, misrepresented themselves as officers and directors of First Equity, and Evergreen's director of operations, Philip Levenson, regularly provided trading data to First Equity, their alleged clearing firm.

Evergreen brokers Justin Fauci, Papaemmanual, and Pasqualini assured investors the company used legitimate banks for trading and their funds were secure. The men even provided bogus reference letters from legitimate banks to validate their claims. Inspectors, however, determined that Evergreen never conducted any trading with those banks.

Instead, Evergreen used First Equity to transfer large sums of investors' money to Forex International in Hungary, which then transferred it to accounts in Latvia and Cyprus. A review of the accounts disclosed that \$600,000 was sent from a Forex account to the personal bank account of Fauci, Evergreen's U.S. sales manager. Worse, any money from First

Equity investors that was not transferred to Forex was used by chief financial officer Polina Sirotina to pay millions of dollars in bonuses, commissions, and personal expenses to Evergreen's employees.

Albert Guglielmo, Evergreen's president; Philip Levenson, director of operations; Mamed Mekhtiev, the chief trader; and Polina Sirotina, chief financial officer, were all convicted on June 27, 2003, after an 11-week jury trial.



Fauci, Papaemmanual, Pasqualini, and other Evergreen brokers routinely solicited money from investors based on false representations of their professional qualifications. After Koudachev departed the United States and his associate Habarov refused to return money that had been transferred to Forex, the defendants continued to draw funds from First Equity accounts. This included a \$500,000 bonus for Mekhtiev and a \$99,000 bonus for Sirotina.

Postal Inspectors arrested Gary Farberov, president of First Equity Enterprises, Inc., and he pled guilty in November 2001. Justin Fauci trained the brokers on how to misrepresent Evergreen's offerings. After learning investigators were on his trail, Fauci contacted the U.S. Postal Inspection Service and the U.S. Attorney's Office in the Eastern District of New York, claiming he and the other Evergreen employees were victims of a fraud and embezzlement scheme perpetrated by Koudachev.

Inspectors to date have seized \$6.5 million of victims' money from bank accounts in New York, New Jersey, Chicago, and Switzerland.

Eleven individuals and two corporations have been charged, five people have pled guilty, and four have been convicted by trial, with sentencing scheduled for March 2004.

Koudachev and Habarov remain fugitives since their indictment in May 2002. An arrest warrant for Mamed Mekhtiev was issued on August 27, 2003, after he violated the terms of his pre-sentencing release and became a fugitive. It is believed he fled to Russia.

and prevention as the best protection for consumers, but many still “take the bait.”

Mail Fraud Against State, Local and Federal Governments

Government agencies and health care groups that fall prey to mail fraud scams are

Case Files:

Mail Fraud Against State, County, and Federal Government

► An investigation by Postal Inspectors and agents from the FBI and the Health and Human Services-Office of Inspector General resulted in indictments for four men in St. Louis, Missouri, in January 2003 for a scheme that defrauded

Medicare of more than \$6 million. The men allegedly used false and misleading statements to sell a medical device to health care providers.

The providers were told to bill the product to Medicare as a “miscellaneous supply” to ensure it was covered. Bills for the fraudulent devices were submitted via the U.S. Mail.

Operation Headwaters:

Abbott Laboratories to Pay \$614.5 Million for Defrauding Medicare, Medicaid, and Consumers

Investigators with Operation Headwaters, an undercover sting initiated by the U.S. Postal Inspection Service, the FBI, and the Health and Human Services-Office of Inspector General, alleged that Ross Products, a division of Abbott Laboratories in Illinois, and CG Nutritionals, Inc. (CG), a wholly owned subsidiary, were responsible

for a multimillion-dollar health care fraud.

Inspectors found that Abbott had defrauded Medicare, Medicaid, and consumers by conspiring to bill the programs for products that are provided to suppliers at no cost. Further, Abbott offered illegal rebates and kickbacks to suppliers (and to undercover investigators

posing as suppliers) in return for fraudulent billings.

Abbott agreed to criminal and civil settlements related to the sales and marketing of its enteral-feeding pumps and other items used to help ill patients ingest meals normally. CG pled guilty in July 2003 to a criminal information for its complex mail fraud scheme and for obstructing a criminal investigation of its health care offenses.

The guilty plea and settlement required CG (Abbott) to pay \$614.5 million in fines and restitution. CG was sentenced to five years' probation and has paid a \$200 million fine. CG also reached a civil settle-

ment with the government and paid \$400 million in restitution to resolve Medicare and Medicaid losses.

CG paid an additional \$14.5 million to various state Medicaid programs based on a settlement crafted by the National Association of Medicaid Fraud Control Units. CG will now be permanently excluded from participation in the Medicare and Medicaid programs.

Finally, \$20 million of the criminal fine was paid to the U.S. Postal Inspection Service's Consumer Fraud Fund.





► **Postal Inspectors arrested 18 West Africans in February 2003**

on charges of tax fraud and identity fraud in New York. One member of the group cooperated with Inspectors and helped them apprehend his cohorts. Beginning in 1997, ring members reportedly stole and then used more than 3,000 Social Security numbers to file false 2002 individual tax returns. Losses to the United States and local governments are estimated at more than \$12 million.

► **Postal Inspectors and other law enforcement officers arrested the owner of Metro One Ambulette,**

which operated several ambulance companies in Brooklyn, New York, on charges of health-care and mail fraud. Inspectors alleged that, from 1990 through 2000, the owner and others submitted fraudulent claims via the mail to Medicare and Medicaid, provided kickbacks in the form of cash and other gifts to hospital employees so they would use the ambulance service, and transferred company assets to another firm to conceal profits.

The owner pled guilty to conspiracy to defraud Medicare and Medicaid and was sentenced in December 2002 to six years and six months in prison and three years' supervised release. Additionally, the judge ordered him to pay \$57 million in restitution to his victims and \$8 million in forfeiture.

The former chief of radiation and oncology at Long Island College Hospital pled guilty in January 2001 to soliciting and receiving kickbacks in exchange for referring his patients to the ambulance company, and the director of security at New York Methodist Hospital (a retired New York police lieutenant) pled guilty to similar charges. Postal Inspectors

have arrested another 13 suspects, including a lawyer and hospital and nursing home officials, connected with the scheme.

Case Files:

Deceptive Mail

► **The operator of a sweepstakes scheme in Rock Hill, South Carolina,**

agreed in March 2003 to cease and desist his mailings and pay the Postal Service \$200,000. Postal Inspectors found that respondents to the mailings were called and told they were winners, but had to mail "taxes" or "Customs fees" to collect their money. Victims either received nothing at all or items vastly inferior to what was represented, losing \$15,000 to \$102,000 apiece in the scheme.

► **Postal Inspectors from the Boston Division obtained a Consent Decree in New York in May 2003**

prohibiting Jason Schwartz, of Credit Choice, Inc., from making false or misleading representations in his mail order business. Inspectors alleged he marketed an unsecured credit card with a \$4,000 to \$7,500 limit to people who were poor credit risks.

Victims were led to believe it was a U.S. business, but Inspectors found the operation was in Quebec, Canada. Inspectors first filed a Temporary Restraining Order against the man in October 2002 to halt the operation, freeze its assets, stop the man from selling or transferring client lists, and prohibit him from soliciting credit cards in any manner. The Better Business Bureau is overseeing refunds for victims.

afforded the same protection under the Mail Fraud Statute as consumers and businesses.

Deceptive Mail

The Postal Inspection Service created the Deceptive Mail Enforcement Team to identify violators of the Deceptive Mail Prevention and Enforcement Act and ensure swift, appropriate investigative attention in such cases. Team members examine questionable promotions and review consumer complaints for compliance with the act. In FY 2003, Postal Inspectors stopped 144 deceptive mailing operations, up 74 percent from last year.

Postal Inspectors have been encouraged by recent findings that promoters are modifying their practices to comply with the law by providing customers with required notices of promotion rules and clearer explanations. Further, the U.S. Postal Service has noted a sharp decline in the number of sweepstakes mailings as companies adopt new marketing strategies in response to the law.

Fraud on the Internet

Cybercrime presents unique challenges to law enforcement groups. Traditional mail fraud schemes rebound with new

success on the Internet, where a greater number of victims can be targeted and perpetrators can remain anonymous. Postal Inspectors investigate Internet fraud when the U.S. Mail is used to facilitate the scheme.

Mail Order Fraud

The U.S. Postal Inspection Service hosted a meeting of the Business Mailing Data Center (BMDC), formerly known as the Business Mailing Industry Task Force,

Case Files:

Fraud on the Internet

► **Postal Inspectors in Detroit, Michigan, identified a man who was auctioning laptops at eBay.com, collecting payments for them, and then failing to deliver them. He was sentenced in January 2003 to two years and nine months in prison and two years' probation, and was ordered to pay more than \$61,000 in restitution.**

► **Postal Inspectors in Colorado investigated a man in Gilpin County they suspected was the cause of complaints related to purchases made over the Internet. They determined he had been stealing credit card information from rural mailboxes and using the stolen account numbers to order items over the Internet and by phone. His fraudulent purchases were delivered by U.S. Mail. The man was convicted of committing mail fraud and was sentenced in March 2003 to 12 years in prison.**

► **Postal Inspectors from the Boston Division arrested a Connecticut woman in April 2003 who had auctioned hundreds of computers at Internet sites under various names, but never provided the computers or refunded her approximately 350**

customers their payments. She was sentenced to four years and nine months in prison and three years' probation, and was ordered to pay restitution of more than \$800,000 to her victims.

Case Files:

Mail Order Fraud

► **A man was sentenced on November 21, 2002, to six months' home detention, three years' probation, and a \$4,000 fine after pleading guilty to two counts of mail fraud. He supplied in excess of \$350,000 in unredeemed, manufacturers' cents-off coupons to the owner of three grocery stores. From 1992 through 1997, the store owner fraudulently submitted to manufacturers more than 3.7 million unredeemed coupons, valued at more than \$2.3 million, which had not been used to buy goods, as required.**

► **As a result of an investigation by the Postal Inspection Service and the IRS in Pennsylvania and New Jersey, two men were sentenced on January 16, 2003, to six months' home detention, five years' probation, and 300 hours of community service. They were also ordered to pay the IRS taxes they owed, plus penalties and interest.**

The men mailed in excess of 1.9 million manufacturers' rebate cents-off coupons, worth more than \$1 million, to coupon redemption centers over a four-year period and failed to report more than \$93,000 worth of income.

► **A New Jersey man pled guilty in April 2003 to mail fraud and admitted using false names and addresses to open hundreds of customer accounts at two popular**



Postal Inspectors were called by the U.S. Attorney's Office in New Jersey to investigate Kevin Jackson after he attempted to redeem what he said was a

1934 Federal Reserve note with a face value of \$100 million. Inspectors and Forensic Analysts worked to prove that Jackson's note was bogus, and he was sentenced on October 3, 2002, to four years and three months in prison, plus three years' probation, for one count of conspiracy and two counts of mail fraud.



record clubs. He and an associate took advantage of promotions that offered nine or more free music CDs with the purchase of one at the regular price.

Postal Inspectors learned the defendant and his cohort collected 48,198 CDs in this manner and then sold them at flea markets. They used at least 53 mailing addresses at post offices and commercial mail receiving agencies to receive the CDs. Industry losses were estimated at \$772,000. Additional charges are pending.

► **Postal Inspectors in Pittsburgh investigated a computer intrusion and merchandise reshipping scheme that robbed victims of close to \$5 million.** Two Pennsylvania men gave Inspectors information against the ringleader of the scheme and helped identify a number of co-conspirators in Georgia, Louisiana, and Romania.

Each man was sentenced in June 2003 to six months' home confinement and four years of supervised release, and was placed in a drug rehabilitation program. They were also ordered to pay restitution of approximately \$96,000 to their victims.

Case Files:

Telemarketing Fraud

► **More than 38,000 people lost close to \$15.4 million to the operator of a sophisticated—but fraudulent—telemarketing scheme.** The man convinced timeshare owners to pay \$400 for unit appraisals by relying on misrepresentations to win them over, such as promising the unit would be purchased once it was appraised.

At sentencing, the judge stated that Postal Inspectors had uncov-

ered "the most corrupt, the most extensive, and the most sophisticated mail fraud scheme this Court has ever seen." Seven others, including three of the operator's children and his son-in-law, were convicted for their roles in the scheme.

The operator was sentenced in Hyannis, Massachusetts, in October 2002 to seven years in prison and three years' probation, and the judge imposed a fine of \$142,000, representing the defendant's assets in an Austrian bank account.

► **A Cape Cod real estate broker who Postal Inspectors proved had defrauded 10,000 timeshare owners of more than \$4.5 million was sentenced in January 2003 to three years in prison and three years' probation, and was ordered to pay a \$98,000 fine.** Similar to the above case, Postal Inspectors found the broker and his assistants talked people into having their units appraised by promising the units would be purchased following the appraisal.

Few paying customers received offers, and the offers that were made were far below market value. At sentencing, the judge told the broker that the appraisal companies he worked for were "a sham from the get-go" and that the broker "knew it was a scam."

► **In October 2002, the last of five defendants charged in a telemarketing scheme in Marina del Rey, California, was sentenced after Postal Inspectors proved that the operator, three of his salesmen, and a sales "reloader" had pressured people into purchasing precious metals margin accounts.**

The operator initially sold investments in platinum, but once people mailed in their money, another

in Chicago, Illinois, on October 29 and 30, 2002, and in Philadelphia on June 11 and 12, 2003.

BMDC works to eliminate fraud in the mailing industry by promoting the sharing of fraud data. The group recently obtained approval from the Department of Justice's Anti-Trust Division and the Federal Trade Commission to allow law enforcement and mailing industry groups to share fraud data.

The success of the task force depends on the number of business mailers who agree to share data with other industry members and law enforcement agencies.

Telemarketing Fraud

Americans receive thousands of unsolicited phone calls each year from telemarketers who are trying to sell a variety of products, often to older citizens.

Many offers are legitimate, but unscrupulous telemarketers can be the smoothest of operators, successfully swindling people out of millions of dollars. Indeed, those on fixed incomes who fall prey to these schemes can lose their entire life savings.

Telemarketing fraud robs Americans

of billions of dollars each year. During FY 2003, Postal Inspectors shut down 37 illegal telemarketing operations, a 40 percent increase over the previous year.

Administrative Actions Related to Mail Fraud

In addition to criminal prosecution, Postal Inspectors frequently rely on civil or administrative actions to deter mail fraud. Below is a list of actions taken in FY 2003 to help stem losses from various fraud schemes.

Administrative Action	FY 2003
Complaints filed by the Law Department	102
Consent Agreements signed	62
Cease and Desist Orders issued	66
False Representation Orders issued	78
Withholding Mail Orders issued	43
Temporary Restraining Orders issued	1
Voluntary Discontinuances signed	176
Civil Injunctions	1

A Withholding Mail Order (Title 39, USC 3003) enables the Postal Service to withhold an addressee's mail if he or she is using a false or assumed name, title, or address to conduct or assist with activity that violates 18 USC 1302 (lottery), 1341 (mail fraud), or 1342 (use of a fictitious name or address), until proper identification

salesman would call and try to talk them into investing in precious metals, collectable coins, heating oils, or foreign currency margin contracts. Sentences for the defendants ranged from three years and 10 months in prison, with orders to pay restitution of \$3 million, to a year of in-home detention with orders to pay \$286,000 in restitution.

► **As the result of Project Colt, a multi-agency task force of Postal Inspectors and other law enforcement agents targeting cross-border telemarketing fraud, a Quebec citizen living in Massachusetts was sentenced on March 26, 2003, to 10 years in prison and three years' probation, and was ordered to pay more than \$1.2 million in restitution.**

Telemarketers posed as attorneys or government officials and targeted mostly elderly people who had lost money in other bogus lotteries. They told victims they could get their money back if they mailed in "taxes" or "advance fees," but, unfortunately, those who responded to the calls were victimized a second time. The defendant was sentenced to an additional two years and three months in prison in Florida for victimizing a resident of that state.

Telemarketers convinced people to authorize \$199 debits from their checking accounts in exchange for the cards, but all respondents received for their money was a catalog, a membership card, and an application for a credit card offered by a bank. Although a Temporary Restraining Order was issued on October 17, 2002, the quick action taken by Inspectors failed to help victims, who apparently mailed millions of dollars to the scamsters.

► **A Tennessee man signed a Cease and Desist Order in November 2002 and agreed to stop operating a work-at-home scheme. Postal Inspectors in Atlanta found he had been running ads in a local newspaper, offering jobs "stuffing envelopes." Those who called and left their addresses received a "Home-worker's Application" in the mail, requiring a \$25 deposit. The application promised a payment of \$1.40 for every envelope stuffed and sealed, and guaranteed incomes of \$700 to \$1,400 each week, plus bonuses. No one received any money except the promoter.**

► **A Cease and Desist Order issued in January 2003 halted a scheme that offered people a report of the procedures for entering sweepstakes with millions of dollars in winnings. Customers were led to believe they were entering a contest, rather than purchasing a report about it, and mailed the requested \$39.95 to an address in St. Louis, Missouri.**

The address turned out to be a UPS Store (a commercial mail receiving agency) that had instructions to forward the mail to Vancouver, Canada. Postal Inspectors determined that, between March 2001 and February 2002,

Case Files:

Administrative Actions Related to Mail Fraud

► **Postal Inspectors in Boston learned a company and its promoter had mailed thousands of postcards advertising an unsecured, major credit card with a \$4,000 to \$7,500 limit to people who were poor credit risks. The card allegedly could be obtained by calling an "800" number, which Inspectors determined was in Quebec.**



roughly 58,000 pieces of mail were forwarded, but none of the respondents received a report.

► **Postal Inspectors shut down a North Carolina woman's fraudulent work-at-home scheme** in March 2003 after a postmaster reported that customers had problems with a company that was renting a non-commercial post office box. Inspectors traced the mail to local ads for envelope-stuffing jobs that instructed interested takers to call a number and leave their names and addresses.

Respondents received flyers in the mail guaranteeing that, for a \$25 fee, they would get materials allowing them to earn \$700 to \$1,400 per week, or \$1.40 for each envelope they stuffed and sealed. The \$25 fee would be refunded with the first pay-

check, and they would also receive an "up-front \$225 sign-up bonus." The woman signed a Cease and Desist Order on March 14, 2003.

► **Two Virginia men accused by Postal Inspectors of operating a fraudulent billing scheme** signed a Voluntary Discontinuance Agreement in January 2003. They agreed to close the post office box they rented in Winchester to run the scheme and that future incoming mail would be endorsed by the Postal Service as "Post Office Box Closed" and returned to senders.

Inspectors determined the men had mailed about 500 bogus invoices to customers of a recycling and disposal service, requesting a \$29.97 payment for trash recycling and disposal services they never provided.

is provided and the person's right to receive the mail is established.

Under 39 USC 3004, the Postal Service may withhold mail if the address is not a person's residence or business address, allowing the person to remain anonymous.

Fraudulent Foreign Lottery Mail

The Chicago Criminal Investigations Service Center (CISC) successfully drafted pleas to stop and destroy foreign lottery mail. There were 43 administrative actions related to foreign lotteries during FY 2003.

Postal Inspection Service staff, including CISC employees and Inspector-Attorneys, determined that foreign lottery material mailed from six addresses in Australia and the United Kingdom to the United States was illegal and, therefore, classified as nonmailable.

A final order against the mailings was obtained on November 21, 2002. Approximately 164,000 pieces of the illegal mail were destroyed as a result.

In June 2003, the Postal Inspection Service group identified similar problems with lottery mailings arriving from the United Kingdom and Australia, resulting in the destruction of 163,943 pieces of mail.

During FY 2003, 43 False Repre-

USPSNEWSLINK

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FRAUD BUSTER

Magazine praises Postal Inspector

Postal Inspector Steve Hamilton helped bust one of the biggest fraud cases in recent history, says *Car and Driver* magazine. Two Los Angeles men were arrested and recently convicted on charges of fraud and money laundering, according to the article from the October issue.

Robert Gomez and James Nichols operated Miracle Cars—a bogus company preying mostly on church congregation members by selling, but never delivering, late-model cars at greatly reduced prices. The cars were

supposedly part of Nichols' inheritance and were locked in probate, said the magazine.

Inspector Hamilton and Treasury Agent Gary Marshall tracked Miracle Car's bank records, showing more than \$21.1 million passed through the company's various accounts. Thanks to the efforts of Inspector Hamilton, Agent Marshall, and other law enforcement officials, the two scam artists were convicted of 40 counts of fraud and money laundering, said *Car and Driver*.

sensation Orders (FROs) were requested and issued against foreign lottery promoters. FROs enable Postal Inspectors to return mail (most of which contains checks) to victims of false or illegal promotions, thereby stemming losses.

To further combat illegal foreign lotteries, Postal Inspectors work with U.S. Immigration and Customs Enforcement (ICE) officials to stop such offerings from entering the U.S. mailstream, and ICE agents contact Inspectors when they find such mail during border searches.

Inspectors detain the mail and provide samples to the Postal Service's Law Department to determine if they meet mailing standards. If the pieces are considered nonmailable, the mailer is notified that it is subject to destruction and may appeal the notice. If the mailer fails to appeal or loses the appeal, a Destruction Order is issued and the detained mail is destroyed.

As a result of Inspectors' coordination with ICE agents and reviews of foreign lottery mail during FY 2003, none entered the U.S. mailstream or needed to be destroyed. Since the initiative began in 1994, approximately 14.6 million pieces have been destroyed.



Inspectors Disrupt Deceptive Mailing Operation

Presort mailer Postal Services, Inc. (PSI) contacted Postal Inspectors in March 2003 at the Omaha, Nebraska, office to report what they thought could be an improper mailing. The mailing was a solicitation to purchase lottery numbers for a fee of \$50. Pre-addressed envelopes for returning the fee were addressed to the International Winners Group in the United Kingdom.

Postal Inspectors determined the person who initiated the mailings was from Brisbane, Australia, and had probably violated the Federal Lottery Statute. The operator flew to the United States several times to meet with PSI representatives about what he referred to as his "marketing solicitations." He was also doing business in Dallas, Chicago, and New York, using a foreign bank account in Australia to

pay for the mailings via an electronic fund transfer to PSI's account in Omaha.

Alleging the mailing was in violation of Title 18, USC 1302, an Inspector prepared a written declaration that the 165,000 piece mailing (seven pallets of boxes) was not legally mailable, so that it was detained until the Postal Service's Law Department filed an official ruling of nonmailability in September 2002. On August 28, 2003, the U.S. Postal Service's Chief Counsel issued a Destruction Order for the Australian foreign lottery mailing, and Postal Inspectors destroyed the mail in September.

Postal Inspectors are now on the lookout for foreign lottery operators who send prepared mailings via private courier to presort houses in the United States, in order to bypass ports of entry.



Mail Bombs and Other Prohibited Mail

Historically, the motives for mail bombs and bomb threats often have related to personal and business disputes, with revenge being the common thread. In the interest of protecting postal employees and customers, the U.S. Postal Inspection Service considers the investigation of mail bombs among its highest priorities.

In FY 2003, Postal Inspectors arrested 99 suspects in incidents related to mail bombs or bomb threats, including threats made against postal facilities, hoax devices, suspicious items in the mail, and bombs or explosive devices placed in private mail receptacles.

Mail Bomb Incidents: Five-Year Trend

	FY 99	FY 00	FY 01	FY 02	FY 03
Incidents	6	7	3	0	2
Explosions	2	4	3	0	1
Injuries	0	2	2	0	0
Deaths	0	0	1	0	0

Case Files:

Bomb Threats, Hoaxes, and Placed Devices

- ▶ **Following a four-day trial in Cynthiana, Kentucky, a man was convicted in March 2003 on seven offenses related to two pipe bomb incidents and other crimes committed against the U.S. Postal Service and its employees between 1998 and 2002.** The man tried to murder a rural carrier associate, who delivered his mail, with pipe bombs.

Prior to the incident, Postal Inspectors and agents from the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) determined the man had been making unsubstantiated complaints about his mail delivery for the past five years. The conviction carries a mandatory sentence of 30 years in prison.

- ▶ **Postal Inspectors in Massachusetts reported the arrest of a man on July 3, 2003, who allegedly placed explosive devices in mailboxes in Massachusetts, New York, New Hampshire, and New Jersey over two years.** During Memorial Day weekend, several mailbox explosions occurred in Massachusetts.

A task force of Postal Inspectors, ATF agents, Massachusetts State Police, and officers from the Bernardston, Massachusetts, Police Department identified the man and obtained evidence against him. He admitted using explosives to destroy mailboxes, despite being arrested for blowing up a phone booth in 1977.

Case Files:

Other Prohibited Mail

- ▶ **Following an investigation by Postal Inspectors, a West Virginia man was sentenced in November 2002 to 16 years in prison and three**

years' probation. Inspectors proved he had mailed letters containing threats and a white, powdered substance to President George Bush, West Virginia Governor Bob Wise, a U.S. District Court judge, and other government officials.

- ▶ **A Massachusetts woman was sentenced in November 2003 to one year and a day in prison and was ordered to pay a \$45,000 fine, as well as restitution to agencies affected by her actions.** The 69-year-old woman admitted she had mailed 16 threatening letters, including six laced with white powder, at the height of the nation's anthrax scare.

The letters were sent to Massachusetts Attorney General Thomas Reilly, members of Reilly's staff, and a Superior Court judge—all of whom were involved in prosecuting the woman on charges of Medicaid fraud. The letters contained words and phrases cut from newspapers and magazines to form death threats, with references to Osama bin Laden and the al Qaeda terror network.

- ▶ **A Pennsylvania woman was sentenced to two years and six months in prison and two years' probation in February 2003 for mailing threatening letters to the President of the United States and local government officials.** The woman and an accomplice mailed threatening letters containing cornstarch in October 2001, during the anthrax crisis, to local prosecutors and law enforcement officials in retaliation for their criminal prosecution of her juvenile son.

The pair also mailed a letter to the President, using the return address of a witness who had

continued on page 19

What is BDS?

The United States Postal Service is committed to keeping its employees and customers safe. To help counter the threat of anthrax in the mail, the Postal Service has developed a biohazard detection system (BDS) that will detect anthrax in the mail. The system is designed for the highest possible level of detection.

Technical Information

What is BDS?

BDS stands for biohazard detection system. It is proven technology designed exclusively for the Postal Service. BDS uses sophisticated DNA matching to detect the presence of anthrax (*bacillus anthracis*) in the mail. It tests air samples from mail-canceling equipment.

The BDS unit consists of an air-collection hood, a cabinet where collection and analysis devices are housed, a local computer network connection, and a site controller—a networked computer.

Why is BDS needed?

BDS will enable early identification of anthrax. It also provides for a rapid response if anthrax is detected.

How does BDS work?

All BDS processes are automated. The equipment collects samples of air as the mail moves through a canceling machine. It absorbs airborne particles into a sterile water base. This creates a liquid sample that can be tested. The liquid sample is injected into a cartridge, and the automated test for a DNA match is performed.

What is the science behind BDS?

The core of the system is a polymerase chain reaction. The process essentially “photocopies” genes of a sample. There is a template for the anthrax DNA sequence. The test sample is compared to the anthrax template to see if there is a match.

How long does a complete BDS test take?

It takes approximately one hour.

How many air samples will be taken during the day?

Continuous air collection will take place while the canceling operation is underway. There are no gaps.

How do you find out if there is a positive match?

If there is a DNA match, the BDS computer network conveys that information to the site-controller computer. Local management is notified directly by on-site BDS personnel and also by multiple forms of electronic communication from the BDS site controller.

Can BDS equipment test for other biohazards?

For purposes of the test, the system is fully capable of testing for anthrax. In the future, it could be adapted to test for other biological threats.

Response

What happens when the alarm goes off?

The emergency action plan is activated. The facility's building alarm sounds and everyone in the building is evacuated. An Emergency Notification Center at Postal Service Headquarters will be notified, as well as community “first responders.” Upstream and downstream processing facilities will also be notified. Data flow will be automatic. That means the question of how to respond is not left up to individual or local decision-makers—many decision-makers within the system are involved.

Once postal employees are outside the building, what will be done for their safety?

Supervisors will call the roll and ensure everyone in the building has been evacuated. They will explain

the nature of the incident, and everyone will wait for direction from community emergency personnel. Postal Inspectors will re-enter the building to verify that everyone has been evacuated.

Will medication be offered?

Local public health officials will determine the need for any medication.

Are further tests performed after a positive BDS result?

An outside lab will perform multiple plate cultures using the BDS positive test sample and other environmental samples—e.g., a wet-wipe or HEPA-SOCK filter samples.

How long will it take to get an outside lab result?

It will take 48 to 72 hours.

Timeline and Logistics

When did you begin to develop BDS?

Within days of discovering that anthrax had been found in the mail system, the Postal Service commissioned the first-ever rapid test for biohazards in the mail system. Extensive research and testing resulted in a combination of the latest technologies.

Will the Department of Homeland Security be notified of a positive test result?

Yes, it will be notified.

Has the BDS been tested?

The Postal Service conducted extensive testing and research, beginning in October 2001. The Executive Office of Science and Technology Policy created an interagency work group that reviewed the performance of BDS and confirmed with its own tests that it is the best possible system the Postal Service can field. In June 2002 the first prototype BDS system was installed in

the Baltimore Processing and Distribution Center. It has been operating successfully.

Mail Service Issues

Does BDS slow mail processing?

No, the equipment operates normally.

What happens to mail inside the plant if BDS results in a positive test for anthrax?

The mail will be retained until it is safe for delivery.

If operations are suspended, what will happen to new mail that would normally be processed in the facility?

Mail will be diverted to other mail-processing facilities, and delivery operations will proceed from there.

Are you still irradiating the mail?

We are still irradiating all mail in Washington, DC, that is addressed to federal offices in the 202–205 ZIP Code range. If BDS is as successful as we believe it will be, it could lead to a rethinking of how we use irradiation.

Manufacturers

Who makes the BDS system?

Northrop Grumman, Smiths Detection of Edgewood, MD, and other team members designed a prototype BDS system that has been operating at the Baltimore Processing and Distribution Center since June 2002. Other team members are Cepheid, Inc., of Sunnyvale, CA, and MRI-Midwest Research, Inc./Sceptor Industries of Kansas City, MO.

When did the Postal Service award the contract for BDS?

In December 2002, the Postal Service awarded Northrop Grumman and the other team members a pre-production contract to expand and continue testing BDS at 14 sites.



Biohazard Detection System

The Postal Inspection Service's new Dangerous Mail Response Teams responded to the July 7, 2003, pre-production testing and deployment of a biohazard detection system (BDS) at 14 postal facilities across the United States.

The Dangerous Mail Response Teams are charged with reporting to postal facilities in the event of a biohazard alert. Team members comprise Postal Inspectors who have been specially trained to enter hazardous environments and perform critical functions, such as gathering evidence.

A total of 46 Postal Inspectors have been trained to be Hazardous Waste Operations and Emergency Response Standard (Hazwoper) Technicians. As BDS is deployed to postal facilities across the country, additional teams of Inspectors will be trained to support the Postal Service's emergency-preparedness plans.

Case Files

continued from page 17

testified against her son, hoping to create problems for the person. The woman's accomplice was sentenced to a year and two months in prison and two years' probation. Postal Inspectors, Secret Service agents, Luzerne County District Attorney detectives, and Wilkes-Barre and Nanticoke, Pennsylvania, police investigated the incident.

► **An Urbana, Illinois, man was sentenced in March 2003 to one year in prison and three years' probation for mailing death threats to several people and their families, with whom he was having personal dis-**

putes. The man is already serving a 20-year sentence in Arkansas for raping a nine-year-old boy. Postal Inspectors used forensic evidence from the Inspection Service's National Forensic Laboratory to back their allegations.

► **A 25-year-old woman was sentenced in June 2003 to seven years and three months in prison for sending anthrax hoax letters to police and a hotel in Hawaii. The woman was the first person to be convicted and sentenced under a late 1990s federal law concerning threats of using a weapon of mass destruction.**

The judge imposed two enhancements to the sentence due to the substantial disruption her actions caused to interstate commerce and because she caused an obstruction of justice when she lied in a suppression motion.

Postal Inspectors were assisted in the case by the FBI's Joint Terrorism Task Force and the Honolulu Police Department; the Inspection Service's National Forensic Laboratory provided evidence that led to the woman's prosecution.

SPECIAL REWARD
up to \$100,000

A reward of up to \$100,000 is being offered by the U.S. Postal Inspection Service, Federal Bureau of Investigation, and U.S. Department of Transportation-Office of Inspector General for information leading to the arrest and conviction of the person(s) responsible for placing a vial of the poison ricin in the Greenville, SC, Post Office. The vial pictured below was accompanied by a threatening letter addressed to the U.S. Department of Transportation and was discovered at the Greenville Post Office on October 15, 2003.

The author(s) of this typed letter claimed to be a fleet owner of a tanker company and demanded that laws regarding hours of service regulations remain unchanged. On January 4, 2004, significant new federal regulations went into effect mandating more rest and orienting drivers toward a 24-hour work/rest cycle. Inside the envelope was a small, metal vial that contained ricin.

Metal vial:

Typewritten on the exterior of the envelope was the following warning:

caution RICIN POISON
Enclosed in sealed container
Do not open without proper protection

The following is a representation of the language contained in the threat letter to the department of transportation: I'm a fleet owner of a tanker company.

I have easy access to caustic pulp. If my demand is dismissed I'm capable of making Ricin.

My demand is simple, January 4 2004 starts the new hours of service for trucks which include a ridiculous ten hours in the sleeper berth. Keep at eight or I will start dumping.

You have been warned this is the only letter that will be sent by me.

Fallen Angel

Public health information regarding ricin can be found at the Centers for Disease Control and Prevention Web site (www.cdc.gov)

Anyone with information should call 1-866-839-6241

A reward payment will be made in accordance with the conditions of U.S. Postal Service Reward Poster 250, Notice of Reward, dated February 2000.

Child Exploitation

Child pornography and the sexual exploitation of children are tragic, heart-rending crimes that plague law enforcement agencies worldwide. Child pornographers who assume (incorrectly) the U.S. Mail will provide a safe, reliable, and anonymous vehicle for exchanging such material are aggressively targeted by U.S. Postal Inspectors, regarded internationally as leaders in the fight against child exploitation.

In keeping with this reputation, the Chief Postal Inspector offered remarks at the first White House Conference on Missing and Exploited Children, held October 2, 2002, and hosted by President Bush to promote public awareness and generate recommendations for “best practices” from experts in the field.

More than 600 people from across the country attended the event. Other speakers included First Lady Laura Bush, Attorney General John Ashcroft, and Secretary of State Colin Powell. President Bush delivered the keynote address.

Inspector in Charge Lawrence Maxwell and Inspector-Program Manager of

Case Files:

Child Exploitation

► **A man in Merriam, Kansas, was sentenced to 24 years and six months in prison for repeatedly raping his six-year-old daughter.** At the December 2002 sentencing hearing, the state prosecutor called it the worst case of child sexual abuse he had ever prosecuted. The offender was identified during a Postal Inspection Service investigation of illegal child pornography mailings.

Statements made by the suspect during the undercover investigation led Inspectors to fear a child was in imminent danger, so they immediately obtained a search warrant for the man's home. Inspectors seized information from the house allowing them to rescue his daughter from further abuse.

► **A man who bought child pornography videotapes through the mail from Russia and reproduced them for sale in the United States was sentenced on December 13, 2002, in Louisville, Kentucky, to nearly 11 years in prison.** Postal Inspectors found he had advertised the illegal tapes on the Internet and sent them to customers via insured mail.

► **A Catholic priest in Chicago was sentenced on January 30, 2003, to 20 years in prison on child pornography charges.** Postal Inspectors and agents from U.S. Immigration and Customs Enforcement found the priest had bought CDs containing child pornography from an Internet site based in New Zealand; the CDs were sent to him via the U.S. Mail.

Inspectors who searched his home seized more than 2,500 images of child pornography, including boys as young as three years old being tortured and confined in cages. At sentencing, a number of

his victims testified about the devastating effects his abuse has had on their lives. The now-former priest admitted he had no idea how many children he had molested, but guessed it was in the hundreds.

► **A five-year investigation by Postal Inspectors and Customs Enforcement agents resulted in the conviction of a 47-year-old man in Dyer, Indiana, in February 2003 after a four-day jury trial.** Postal Inspectors determined he was running a child prostitution ring disguised as a tourist resort in Acapulco, Mexico, and customers mailed him payments to buy sexual activity with children.

The man had a previous conviction in 1988 on state charges for molesting an 11-year-old boy, and now faces up to 50 years in prison. Six others associated with the ring were also convicted and have received sentences of up to 60 years in prison.

► **Postal Inspectors and local law enforcement officers arrested a former Forest Grove, Oregon, community resource police officer and youth sports official on May 1, 2003, after he received a child pornography videotape through the mail.** The man told Inspectors he wanted to stop hurting children, and then confessed to molesting at least seven youngsters, including his own stepson, over an eight-year period.

► **New York Postal Inspectors led a multi-agency investigation of the activities of a 58-year-old man in Rochester with a 30-year history of child molestation.** Inspectors determined he had been mailing letters to young boys to entice them into sexual encounters. One of his victims attempted suicide twice and



required psychiatric treatment. The offender was sentenced to 12 years and four months in prison, and he was ordered to pay \$29,000 in restitution to his victims.

► **A Minneapolis, Minnesota, man pled guilty on August 19, 2003, to traveling across state lines to engage in sexual activity with underage children and to produce child pornography.** His plea resulted from an investigation that began in November 2002, when an Iowa mother called Postal Inspectors after finding child pornography in a package mailed to her son.

Inspectors identified the mailer and determined he had traveled from Minnesota to Iowa several times to molest the woman's teenage son, his 10-year-old brother, and his 12-year-old sister. He took sexually explicit pictures of the 10-year-old boy. Inspectors found more than 15,000 child pornography images on CD-ROM disks at his home.

► **On August 6, 2003, a 10-count indictment was returned against a North Hollywood, California, company and its owners in Pittsburgh, Pennsylvania, following a seven-month investigation by Postal Inspectors and Los Angeles detectives.** The charges resulted from the company's distribution of videotapes and DVDs, depicting rape and violent sexual abuse, to individuals and wholesale distributors throughout the United States via the U.S. Mail.

► **Four people pled guilty to obscenity charges on August 25, 2003, in Beckley, West Virginia, after an investigation by Postal Inspectors conducted in close cooperation with federal prosecutors from the Child Exploitation and Obscenity Section of the Department of Justice.** Inspectors determined the four suspects, who worked in Lewisburg and in Quitman, Georgia, used an Internet site to sell videotapes and DVDs depicting sexually explicit scenes of defecation and urination, and distributed the material via the U.S. Mail.

Child Exploitation Raymond Smith met with President Bush on October 23, 2002, and personally briefed him on the work of the Postal Inspection Service in combating the sexual exploitation of children. The President asked for information on Operation Avalanche, an undercover operation conducted in his home state of Texas, involving a large-scale child pornography business, Landslide Productions.

The President learned that, as the result of the Inspection Service-led investigation, the largest commercial child pornography enterprise ever encountered was dismantled. As the investigation expanded to cities around the world, Operation Avalanche became the largest global action ever

undertaken against child pornographers.

Attorney General John Ashcroft presented an award in December 2002 to Postal Inspector Raymond Smith at the Department of Justice's Criminal Division's Award Ceremony. The Inspector was commended for his invaluable expertise with and

Case Files: Obscenity

► **A Kentucky man pled guilty in December 2002 to mailing obscene material and money laundering after he was arrested by Postal Inspectors as he walked out of the Science Hill Post Office.** An undercover investigation determined he used his Internet site, "Taboo-movies," to advertise videotapes depicting brutal rape and bestiality, and his post office box address to mail and receive orders. Inspectors executed search warrants at several locations and seized the man's videos, video duplication equipment, mailing supplies, and financial records.



Attorney General John Ashcroft presented Miami Postal Inspector Beth Bendel with a National Missing and Exploited Children's Award at a ceremony held at the Department of Justice in June 2003. Inspector Bendel was also named Officer of the Year.

assistance to the Child Exploitation and Obscenity Section's national efforts in combating the sexual exploitation of children and the Attorney General's commitment to enforce federal obscenity laws.

In May 2003, Attorney General John Ashcroft presented Miami Division Postal Inspector Beth Bendel with one of six national awards at a ceremony held in cooperation with the National Center for Missing and Exploited Children. The Inspector and other national award recipients were again honored at the Congressional Breakfast and National Missing and Exploited Children Awards Ceremony.

During the ceremony, the prestigious Officer of the Year Award was also presented to Miami Inspector Bendel for her exemplary investigation of a mail order child pornography distributor in Florida. It was the fifth consecutive year that a Postal Inspector received the prestigious award for outstanding investigations involving the sexual exploitation of children. Further, a Postal Inspector has been named Officer of the Year three times over the past five years. No other agency has achieved such acclaim.

The exchange of child pornography by mail is often accompanied by communication over the Internet. Child molesters and pornog-

raphers use the Internet to seek potential victims, communicate with like-minded individuals, and locate sources of child pornography. Over the past several years, there has been a marked increase in unlawful computer transmissions and Internet ads for child pornography, which occur hand-in-hand with the trafficking of child pornography videotapes and computer disks through the mail.

The vast majority of child exploitation cases investigated by Postal Inspectors in FY 2003 involved computers, as well as postal violations. Since the passage of the Child Protection Act of 1984, Postal Inspectors have arrested 4,027 suspects for using the mail in violation of federal child exploitation laws.

During FY 2003, Postal Inspectors arrested 310 suspects for child sexual exploitation offenses and reported 283 convictions in such cases from that and prior fiscal years. Incident to a search of a suspect's property, Postal Inspectors may find evidence that the target of the investigation is also a child molester. As a result of Inspectors' casework this past fiscal year, 91 child molesters were identified and 229 child victims saved from potential further abuse.

Obscenity

The U.S. Postal Inspection Service has



investigated mailings of obscene matter for more than a century. In the 1860s and 1870s, Post Office Inspectors tracked down European “smut peddlers,” who brought obscene material to America. Anthony Comstock, a New York Post Office Inspector, waged a relentless battle against those who used the U.S. Mail to distribute obscenity.

In 1873, Inspector Comstock drafted the nation’s first enforceable federal obscenity law, which became known as “The Comstock Act.” It was the forerunner of today’s postal obscenity statute, Title 18, U.S. Code, Section 1461.

The Internet is now the most-used venue for advertising obscene material and introducing it into American homes—where it easily reaches young children. Dealers of obscene matter try to use the U.S. Mail to distribute the illegal material, in violation of federal law.

In the late 1990s there was little federal interest in prosecuting obscenity dealers, but the Department of Justice has now called for a renewed focus on obscenity prosecutions to deter the production and distribution of obscene material.



Illegal Drugs and Trafficking

The Postal Inspection Service interdicts mailings of illegal drugs and drug proceeds to protect postal employees from the violence related to drug trafficking and to preserve the integrity of the U.S. Mail.

Working in concert with other law enforcement agencies, Postal Inspectors arrested 1,378 suspects in FY 2003 for drug trafficking and money laundering via the U.S. Mail. Seizures from the mail included

Case Files:

Illegal Drug Trafficking

► **A two-year, multi-agency Organized Crime Drug Enforcement Task Force (OCDETF)** investigation by the Postal Inspection Service and agents from the FBI, IRS, and the 20th Judicial Task Force targeted a Los Angeles, Memphis, and Nashville drug trafficking and money laundering ring. Investigators arrested 35 suspects in Tennessee who were convicted of shipping more than 3,000 pounds of marijuana via Express Mail, FedEx, and UPS and “laundering” roughly \$1.2 million via Western Union to suppliers.

Task force members tracked and analyzed phone calls between gang members and conducted numerous interviews, proffers, and financial profiles in Tennessee and Los Angeles in their efforts to dismantle the organization. Three defendants were convicted of conducting a continuing criminal enter-

prise and received sentences of at least 15 years and up to 20 years in prison.

► **On December 12, 2002, Postal Inspectors, agents from the DEA and FBI, and local police** arrested six members of a major drug trafficking organization and seized more than \$530,000 in assets and cash. Three other members of the ring were arrested later. The 46-count indictment against the nine defendants included charges of money laundering, felony possession of a firearm, and conspiracy to distribute cocaine, crack cocaine, and heroin.

From late 1998 through 2002, ring members distributed at least 5 kilograms or more of cocaine, 50 grams or more of crack cocaine, and at least 1 kilogram or more of heroin in the areas of Chesapeake and Norfolk, Virginia.

Six of the nine defendants pled guilty and received sentences ranging from 14 to 24 years in jail. The remaining three, including the ring-leader, were found guilty by a jury. The son of the ringleader, who also pled guilty, was a significant witness for the prosecution.

► **A California man was sentenced to life in prison on October 3, 2003, for running a multi-state drug conspiracy.** His ring shipped at least



Drug mailer presents Express Mail package at Ballwin, Missouri, Post Office.



20 kilograms of cocaine a month to St. Louis, Missouri, from Los Angeles, California, and McAllen, Texas.

Couriers transported the cocaine to St. Louis in cars with electronically controlled, hidden compartments and sent the proceeds via Express Mail to CMRAs in Los Angeles. Evidence introduced by Inspectors at trial revealed the man sent more than 240 Express Mail packages, each containing between \$6,000 and \$8,000 in cash, in a single year.

► **Postal Inspectors were joined by agents from the DEA and FBI** in the investigation of a Birmingham, Alabama, man who was subsequently sentenced to two years and three months in prison and 10 years of probation for distributing more than 18 pounds of methamphetamine through the mail. His cohort was sentenced to seven years in prison and five years of probation for related activities.

► **Postal Inspectors in Los Angeles and in Utica, New York, concluded** a three-year investigation of a marijuana distribution ring in February 2003. Inspectors arrested five suspects who were later indicted for trafficking in excess of 325 pounds of the illegal drug. The case was initiated by a Postal Police Officer in Los Angeles.

► **Postal Inspectors were assisted by agents from the DEA and U.S. Immigration and Customs Enforcement** in an Organized Crime Drug Enforcement Task Force case involving 12 companies that allegedly manufactured and distributed illegal drug paraphernalia. The two-year investigation resulted in the arrest of 55 suspects and the seizure of about \$150,000 in cash. The suspects

were reportedly responsible for generating revenue of more than \$200 million via commercial businesses, the Internet, the U.S. Mail, and private mail couriers.

► **A sentence of 18 years in jail was handed down on March 5, 2003,** for a Rochester, New York, man who Postal Inspectors found had been running a multi-state heroin distribution ring. The six-year investigation identified seven of his co-conspirators, who have already received lengthy jail sentences. Ring members imported the heroin into the United States via international mail and distributed the drug and drug proceeds in this country via the U.S. Mail.

► **Postal Inspectors in Houston joined federal, state, and local agencies** from three states in an investigation of a ring that distributed PCP and cocaine. Gang members obtained the drugs in Los Angeles and transported them for sale in Oklahoma City and Minneapolis using the U.S. Mail or private couriers.

► **Two New York men pled guilty in May 2003 to selling controlled substances** over the Internet and shipping the drugs via the mail. Postal Inspectors were tipped off to suspicious Priority Mail by a postal clerk, who found liquid vials labeled "steroids" in a mailing that had broken open. Inspectors obtained search warrants for the package and found inside such illegal substances as anabolic steroids, Xanax, Vicodin, and Dinitrophenol (DNP).

In September 2002, Inspectors learned that a 17-year-old Connecticut girl had died from an overdose of DNP she had purchased over the Internet. The drug had been shipped

Inspectors Target Cocaine Ring

An Organized Crime Drug Enforcement Task Force, dubbed Operation Cash Run and headed by U.S. Postal Inspectors, identified a ring that transported roughly 20 to 30 kilograms of cocaine a month, and mailed in excess of 240 Express Mail parcels of drug payments, from St. Louis to Los Angeles over a two-year span.

The ringleader, shown here in surveillance images culled from evidence files, was sentenced to life in prison, and three of his "top" men received sentences of 17, 30, and 35 years in prison, respectively.



roughly four and one-half tons of illegal narcotics. Postal Inspection Service investigations also resulted in the seizure of about \$2.8 million in cash and monetary instruments, four vehicles, and 18 firearms.

At the annual awards banquet of the High Intensity Drug Trafficking Area (HIDTA) Program held in December 2002, U.S. Postal Inspectors from the Philadelphia, Chicago, and Los Angeles Divisions received awards for their outstanding work in narcotics investigations. HIDTA was created by the Executive Office of the President and operates under the direction of the Office of National Drug Control Policy.

Its mission is to coordinate drug-control efforts of local, state, and federal law enforcement agencies in critical regions of the country to eliminate or reduce drug trafficking and its harmful consequences. An HIDTA Task Force, led by Postal Inspectors in the Philadelphia Division, was named “Outstanding Interdiction Group of the Year,” and Inspectors in Chicago and San Diego were recognized for their successful investigations targeting narcotics conspiracy and drug trafficking.

by one of the mailers, who was operating an Internet-based, illegal drug business. Instructions at the site advised customers to e-mail their orders and send cash payments via Priority or Express Mail to a defendant's home address, along with an e-mail address to confirm the order was sent. The men grossed about \$30,000 a month and shared the profits equally.

They will each receive sentences of one year to a year-and-a-half in prison. The government did not seek an upward departure from the sentencing guidelines in spite of the girl's death, but her parents began an aggressive letter-writing campaign on her behalf, and the judge may decide to increase the defendants' jail time as a result.

► **In June 2003, the third of four defendants was sentenced in Knoxville, Tennessee, for mailing more than 100 parcels containing in excess of 100 kilos of marijuana over a two-year period. The four men had imported more than five kilograms of cocaine and 20 pounds of marijuana into the Knoxville area.**

Three were sentenced to a combined term of 21 years and nine months in prison, and sentencing for the fourth, who is the mailer, was scheduled for October 2003. Inspectors conducted a search of the mailer's home and seized 27 pounds of marijuana, 24 marijuana plants, \$22,000 in cash, and 12 firearms. The investigation was conducted by the Postal Inspection Service, the DEA, and the Knoxville Police Department.

► **Postal Inspectors arrested a Las Vegas, Nevada, man in June 2003 for distributing pseudoephedrine, a drug that can be used to manufacture methamphetamine. Before tak-**

ing him into custody, Inspectors watched him pick up more than \$11,000 from mail he received at a commercial mail receiving agency, and saw him mail 54,000 tablets at another CMRA. Inspectors began the multi-agency, international investigation after seizing 8,000 tablets mailed to a buyer in Missouri.

They identified a Canadian man as the source for the Las Vegas drugs and obtained indictments for both suspects. A search warrant resulted in the seizure of 775 pounds of tablets—enough to produce 225 pounds of methamphetamine. Postal Inspectors coordinated the investigation with the Royal Canadian Mounted Police, who seized another 800 pounds of tablets.

On the same day in June 2003, the Canadian man was arrested in England, prompting extradition proceedings. Postal Inspectors seized more than \$300,000 from two bank accounts associated with the suspects and initiated additional forfeiture action that is expected to result in the seizure of \$1.7 million in assets from drug proceeds.



Asset Forfeiture and Money Laundering

The Postal Inspection Service uses asset forfeiture laws to dismantle criminal organizations involved in drug trafficking, financial crimes, and child exploitation through the mail. Recent legislation, such as the Civil Asset Forfeiture Reform Act of 2000 (CAFRA) and the USA Patriot Act, has provided additional tools that are useful in investigating and prosecuting these offenses.

In FY 2003, the Postal Inspection Service provided specialized forfeiture training to asset forfeiture personnel, Inspector-Attorneys, and field Inspectors.

During FY 2003, Postal Inspectors seized 553 assets valued at \$29 million, and forfeited 439 assets valued at more than \$9.5 million. Inspection Service forfeiture activity in FY 2003 netted \$6.7 million. As a result of successful asset

Case Files:

Asset Forfeiture

► **Postal Inspectors in Seattle, Washington, identified two suspects** who were marketing illegal lottery products to U.S. citizens through the mail. The perpetrators collected an estimated \$722,000 from unsuspecting victims and transported it between Vancouver, British Columbia, and Tacoma, Washington. Inspectors seized more than \$400,000 from the suspects' bank accounts in November 2001, and on December 4, 2002, a consent judgment was issued for the forfeiture of \$360,884.

► **New York Postal Inspectors received a tip from a financial broker** in November 2001 about suspicious money orders that had

been deposited into an investment account. Inspectors found that the 431 postal money orders had been stolen by a New York City letter carrier, who controlled the account.

Losses totaled more than \$500,000. Inspectors executed seizure warrants during 2002 on all of the carrier's known accounts, recovering more than \$380,000. Final forfeiture orders were obtained for the funds, which will be awarded as restitution to the U.S. Postal Service.

► **From 1999 through 2002, Postal Inspectors in Los Angeles, California, and Tampa, Florida, identified several people for trafficking kilograms of cocaine and proceeds from the sales via Express Mail.** After

Identity Theft, Mail Fraud, Access-Device Fraud, and Stolen Mail

Postal Inspectors and investigators with the Harris County, Texas, District Attorney's Office initiated an identity theft investigation after an Assistant District Attorney reported that someone had ordered and was using credit cards in her name.

The team identified a suspect who was a naturalized U.S. citizen born in Lagos, Nigeria, and executed a search warrant at his home on March 7, 2003. Investigators seized thousands of pieces of stolen U.S. Mail and credit cards, and about \$133,000 in cash from a safe.

They also seized the suspect's two cars, a Mercedes and a Toyota. Four days later, the team served a search warrant at the suspect's bank, where they seized \$230,000 in cash from a safety deposit box he rented. They located and froze his



three bank accounts, resulting in a total seizure of more than \$500,000, and arrested him on identity theft-related charges. The team identified the suspect's brother for similar violations, and arrested him on March 21 attempting to leave the country; they later seized \$75,000 and a 2003 Lexus from him.

On September 16, 2003, just minutes prior to a jury being seated, the suspect pled guilty to one count of conspiracy, eight counts of mail fraud, and one count of possessing stolen mail.

forfeiture cases, the Inspection Service was able to share \$1.6 million with other federal, state, and local law enforcement agencies. Postal Inspectors were also successful in seizing assets and using the proceeds to pay victim restitution.

Money Laundering

The U.S. Postal Service is considered a non-bank financial institution and a money services business, and must, therefore, comply with the reporting requirements of the Bank Secrecy Act (BSA). The Postal Inspection Service supports the Postal Service's BSA compliance efforts by analyzing postal money order transactions and investigating criminals who use them and other postal financial products to launder illicit proceeds and avoid federal reporting requirements.

Beginning in 2002, the Postal Inspection Service joined Operation Green Quest, a multi-agency task force headed by U.S. Immigration and Customs Enforcement that identifies and disrupts terrorist funding sources.

Illicit proceeds may include money gained through narcotic sales, the smuggling of illegal aliens, tax evasion, or the selling of counterfeit merchandise.

arresting one of the suspects, Inspectors seized and forfeited approximately \$123,900 in drug proceeds. The defendant was convicted of drug trafficking and faces a possible sentence of life in prison. The investigation is continuing.

Case Files: Money Laundering

► **Two men pled guilty in October 2003 to a one-count information** charging them with conspiracy to structure currency transactions. Inspectors learned that, over an eight-year period, the men structured the purchase of more than \$600,000 worth of money orders, which they deposited into their attorney's trust account—a man who went on to become a Superior Court judge in New Jersey. The attorney pled guilty to his involvement in the scheme and resigned from the bench in February 2002. The two men face up to five years in prison and \$250,000 in fines.

► **A money laundering investigation by Postal Inspectors and FBI agents in Houston, Texas,** culminated in the February 10, 2003, sentencing of a U.S. citizen from Nigeria. Postal Inspectors determined the man withdrew more than \$400,000 from 12 fraudulent brokerage accounts, which contained deposits of stolen and counterfeit checks totaling \$1.3 million. The man was sentenced to more than eight years in prison without parole and three years' supervised probation; he also was ordered to pay a \$25,000 fine.

► **Postal Inspectors, Secret Service agents, and investigators from the Franchise Tax Board (FTB)** arrested

an FTB employee on February 18, 2003, for opening at least 10 fraudulent bank accounts in other people's names. Using debit cards from the fraudulent accounts, the employee bought \$65,000 worth of postal money orders, which he negotiated at post offices in California and New York. Investigators believe the employee stole approximately \$950,000 worth of FTB checks.

► **Postal Inspectors and IRS agents in New Jersey executed seizure warrants** on March 7, 2003, for four investment brokerage accounts after finding that, from January 1998 through October 2001, the account holder had bought 599 postal money orders worth \$416,280. He sometimes visited as many as six post offices a day, buying the money orders in amounts of less than \$3,000 each to avoid federal reporting requirements. He deposited the laundered money into the investment accounts.

► **Postal Inspectors who are members of the FBI's Joint Terrorism Task Force in Denver, Colorado,** executed a search warrant in March 2003 on an Express Mail parcel addressed to an Iraqi national that contained \$4,200 in blank postal money orders. The mailer and his brother ran an unlicensed money-transferring business, which they used to illegally send more than \$7 million to Iraq over two and one-half years. Inspectors arrested the brothers for using the U.S. Mail and postal money orders to conduct illegal business.

U.S. Postal Inspection Service

Jurisdiction and Laws

Postal Inspectors enforce more than 200 federal laws in investigations of crimes that may adversely affect or fraudulently use the U.S. Mail, the postal system, or postal employees. The list below describes some of our most important areas of jurisdiction.

Assaults (18 USC 111, 1114)

The protection of Postal Service employees is one of our most important responsibilities. Inspectors promptly investigate assaults and threats that occur while postal employees are performing official duties or as a result of their employment.

Bombs (18 USC 1716)

Although a rare crime, the mailing of bombs is given one of our highest investigative priorities due to the severe impact it can have on postal customers, employees, and operations.

Burglary (18 USC 2115)

The Postal Service averages about 300 burglaries each year. Inspectors have minimized losses through the use of security equipment and facility design.

Child Exploitation (18 USC 1470, 2251, 2252, 2253, 2254, 2422, 2425)

The Postal Inspection Service has long been recognized as the leading federal law enforcement agency in the effort to combat the production and distribution of child pornography and other crimes exploiting children through the mail and, when it involves the mail, over the Internet.

Controlled Substances (21 USC 841, 843, 844)

Postal Inspectors initiate investigations related to transporting and distributing narcotics through the mail or at postal facilities.

Counterfeiting Stamps and Money Orders, and Related Crimes (18 USC 500, 501, 503, 1720)

Postal Inspectors preserve public confidence in the mail by pursuing individuals who forge or counterfeit postage stamps, postal money orders and other stamp products. The Inspection Service helps train postal employees to recognize bogus postal money orders.

Destruction, Obstruction, and Delay of Mail (18 USC 1700, 1701, 1702, 1703)

The Postal Inspection Service upholds federal statutes aimed at securing customers' mail, including those related to the desertion, obstruction, delay or destruction of mail.

Postal Inspectors demonstrate their resolve by implementing mail security processes to ensure that customers receive their mail intact and free from outside interference.

Electronic Crimes (18 USC 1029, 1030, 1343, 2701)

Inspectors protect postal customers from fraud schemes and other crimes that may occur online and involve the misuse of the mail or of the Postal Service. This includes using or selling stolen or counterfeit access devices, such as credit card numbers; using protected computers without proper authority or exceeding authorized access; using computer communications in a scheme to defraud; and unauthorized access to communications that are stored electronically via a communications service.

Embezzlement (18 USC 1711)

Postal Inspectors investigate employees and contractors suspected of embezzling postal funds and review the Postal Service's internal financial controls to protect postal revenue and assets from internal theft or misuse.

Extortion (18 USC 876)

The Postal Inspection Service has jurisdiction when the U.S. Mail is used to injure a person's reputation or property, or a threat to accuse a person of a crime, accompanied by a demand for money or other item of value.

Forfeiture (18 USC 981, 982)

Postal Inspectors use criminal and civil forfeiture statutes, when appropriate, to seize assets associated with criminal acts. The Postal Inspection Service equitably shares forfeited assets with other local, state, and federal law enforcement agencies as appropriate.

Identity Theft (18 USC 1028, 1029)

The Postal Inspection Service is a leading federal law enforcement agency in the investigation of identity takeovers, a crime that often begins with the theft of mail or use of the mail to defraud individuals or financial institutions.

Lotteries (18 USC 1301, 1302, 1303; 39 USC 3005)

Postal Inspectors protect consumers by strictly enforcing all laws related to importing, transporting, and mailing lottery tickets. Under the false representations and lottery statute (3005), Inspectors are authorized to instruct postmasters to withhold from delivery and return to sender any mail that violates the law.

Mail Fraud (18 USC 1341, 1342, 1345; 39 USC 3005, 3007)

The Postal Inspection Service is committed to protecting postal customers from misuse of the mail. Inspectors place special emphasis on mail fraud scams related to advance fees, boiler rooms, health care, insurance, investments, and other consumer frauds, especially when they target the elderly or other susceptible groups.

Mail or Mailbox Destruction (18 USC 1705)

The Postal Inspection Service is committed to ensuring the security of the nation's mail and the receptacles intended for the receipt or delivery of the mail. To this end, Postal Inspectors aggressively pursue individuals who willfully or maliciously injure or destroy such receptacles.

Money Laundering (18 USC 1956, 1957)

Postal Inspectors aggressively investigate criminals who attempt to conceal the proceeds of illegal acts through monetary transactions. Inspectors identify and seize criminals' assets, denying violators the proceeds of their crimes.

Money Order Crimes (18 USC 500)

Postal Inspectors investigate the counterfeiting, altering, and forging of postal money orders.

Obscenity and Sexually Oriented Advertising (18 USC 1461, 1463, 1735; 39 USC 3010)

Postal Inspectors follow court-established guidelines to uphold obscenity standards, which prohibit "obscene, lascivious, indecent, filthy or vile" mailings. Customers who wish to halt mailings of sexually oriented advertisements or similar solicitations may complete and submit to a post office Form 1500, which is available at post offices.

Robbery (18 USC 2114)

Postal Inspectors respond promptly to robberies of postal employees and postal contractors. Inspectors focus on preventing robberies through the use of security equipment and improved postal procedures.

Theft of Mail (18 USC 1708, 1709)

Postal Inspectors invest significant resources into the investigation of mail theft by criminals, postal contractors, and employees.

Workers' Compensation Fraud (18 USC 1920)

The Postal Inspection Service places a high priority on investigations of workers' compensation fraud due to the high costs of the program: The Postal Service incurs about 25 percent of the entire federal government cost for workers' compensation.